

January 30, 2007

MEMORANDUM

To: Thomas W. Ross, Chairman
Sales Tax Subcommittee
State and Local Modernization Study Commission

From: Andy Sabol, Director
Sales and Use Tax Division
North Carolina Department of Revenue

Subject: Possible Collection Issues with the Broadening of the Sales Tax Base

At your request, set out in this memorandum is a discussion of collection issues that could arise if the sales tax base were to be expanded to impose sales tax on services not currently taxed in North Carolina. Sales tax is imposed on a limited number of services under current law and, accordingly, the number of service providers required to collect sales tax is limited. Included in the information presented is an overview of requirements and responsibilities of a retailer liable for collecting sales tax.

A taxpayer liable for collecting sales or use tax on retail sales of tangible personal property or services is required to obtain a sales and use tax registration number from the Department of Revenue. An application for a registration number must be completed and submitted to the Department either by mail or in person at one of the Department's nine service centers located across the State. A registration fee is not imposed. Upon the completion of processing the application, the taxpayer is sent a notice with its assigned registration number and receives general information on the imposition of sales and use taxes and requirements for filing returns and remitting tax. Taxpayers also receive a supply of preprinted returns and have the option of filing and paying tax electronically. The frequency of filing depends on the average tax liability as taxpayers owing less than \$100 per month can be set up to file on a quarterly basis and other taxpayers would file on a monthly basis.

If services such as repair labor or maintenance contracts were to become subject to sales and use tax, there should be a minimal impact on the ability of firms to begin collecting tax, as most of the firms that provide these services also make

sales of tangible personal property and would already be liable for collecting and remitting sales and use tax. There would be an education effort required by our Department to inform these sellers of the changes in taxation and the sellers would be required to adjust their tax collection procedures accordingly. Included in this category should also be many taxpayers that provide entertainment as these providers generally make sales of some type of tangible property, such as concessions, at events. The Department would be able to verify that tax was being properly collected through its audit program since there will be a record of these taxpayers available.

The process becomes more difficult for healthcare providers, professionals, contractors, and real property rental services. Since these types of service providers have traditionally not been required to collect sales and use tax on their services, a major educational effort would be required to apprise providers of the law and the processes for collecting and remitting tax. The Department may be able to identify some providers that will be liable for collecting tax through other licenses required to be obtained, such as professional privilege licenses; however, on the whole, it would be difficult to identify providers liable for the tax. Therefore, registration of providers liable for collecting tax will initially be dependent on voluntary action by providers. The Department would subsequently look to identify providers liable for the tax over time through the use of available information. It can be expected that not all tax due would immediately be collected at the outset of a levy of tax on providers of these types.

I hope this information proves useful to your committee. If you or the committee members have any questions or if we can provide further information, please let me know.